The MORTGAGE BANKER

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Bloom Off the Rose?

The real estate rose that is, and the answer seems to be NO but higher priced property has been marked down some and there isn't quite the keen demand there was

IN RECENT months *The Mortgage Banker* has been getting some first-hand reports from various members who have been traveling over the country and report there has been a noticeable slackening of demand for residential real estate, that prices have eased some, especially for higher-priced housing, and that, generally speaking, there seemed to have been a definite change in the trend of the past several years. The opinion of these members seems to bear out the view of Roger Babson who has also been doing some traveling and has observed the same thing. He commented on what he had seen and heard in the last issue of *The Mortgage Banker*.

Has *the* turn come? Or is this merely a temporary adjustment in a broad movement, the end of which is nowhere in sight? Whatever the answer, there has been a change. Higher-priced housing almost everywhere is being marked down but that doesn't mean it's cheap or represents anything like "normal" value. And demand certainly has let up some, more in some areas than others, which in some respects is surprising because the shortage of housing seems to be just about as acute now as it ever was.

Business letters and authorities have been saying for months that the trend has definitely changed.

Belief that the peak in the market and prices for older and larger residential properties was passed sometime in the Spring or Summer of last year was expressed by directors of the United States Savings and Loan League as the result of a survey. Signs of buyers more careful scrutiny of for-sale houses and of sellers greater eagerness to dispose of properties of this type were noted.

Evidence cited varied all the way from a reduction in the amount of premium buyers are willing to pay for the availability of a house to actual incidents of selling prices reduced several thousand dollars to effect a sale.

"People who have money are not willing to spend it as freely as they were six months ago," said a Virginia director of the League.

"I have talked to dozens of real estate men and they tell me that where they used to get ten calls in response to an advertisement, they now get one," declared WALTER J. L. RAY of Detroit.

"As to the older and larger home properties, there is a definite easing off in the demand, whereas a year ago properties in that class moved relatively fast," said another.

"There seems to be an indication in this area, at least, of older properties remaining vacant longer and then selling at lower figures than the asking price," reported a Providence, R. I., director. "The availability premium in this area seems to have been cut from the former $1,000 to $2,000 according to the sale price and location to approximately $500 to $1,000, and in many cases now seems to be non-existent."

> *With this issue is a map showing the congressional districts in your state and the names of your senators and congressman. We suggest you keep it handy for ready reference while congress is in session.*

Secretary-Treasurer HERMAN CELLARIUS, Cincinnati, who has seen the ups and downs of real estate during fifty years in this post, says:

"There has been a very definite halt in the prices of older and larger home properties which for the past year or so have had such unreasonable increases in prices. The leveling off period has arrived."

ROBERT M. BLEIBERG in *Barron's* points out that "one of the firmest seller's markets in the country, real estate, is finally showing unmistakable signs of turning selective, both in terms of property and in terms of locality. In many areas, buyers are now scrutinizing prospective purchases, especially of residential property, with a gimlet eye. There are still a number of brass rings to be carried off, particularly in the commercial and industrial categories, but the six-year merry-go-round which brought the price of houses to twice prewar levels is running down.

"Slackening of the boom in residential property is most apparent in the decline in over-all demand, registered by the 15 per cent nationwide falling-off in the rate of transfers since the

peak of last May. In St. Louis, for example, the number of instruments passing through the recorder's office sagged from a May total of almost 6,000 to 4,158 for the period September 6 to October 3. In St. Louis County only 3,850 transfers were recorded, contrasted with 4,678 in July."

The normal seasonal decline in summer sales is around 5 per cent. Last year the drop was as much at 25 per cent in some cities, and extended well into the autumn. A survey by the *Real Estate Analyst* found only a handful of cities running counter to this trend. Percentages are approximate, but they combine to show clearly a picture of declining activity. Typical of the market is Chicago, where activity is off 20 per cent; Hartford, off 10 per cent; Kansas City, Mo., off 10 per cent; Milwaukee, off 10 per cent; Oklahoma City, off 5 per cent; Portland, Ore., off 15 per cent; Cleveland, off 20 per cent; Denver, off 30 per cent; Los Angeles, off 10 per cent; and Minneapolis, off 10 per cent.

A number of cities have registered less drastic drops in activity, including a 5 per cent decline for Brooklyn; 8 per cent for Washington, D. C.; 5 per cent for Buffalo; 2 per cent for Indianapolis; and 2 per cent for San Francisco.

"Decreased demand has not yet made itself felt in reduced prices as universally as it has in lowered activity. This leads real estate experts to say the boom has merely leveled off so far. A number of significant price reductions have appeared here and there in the residential market, however, and further discounts, especially for older dwellings, are viewed as inevitable," Bleiberg points out.

"In Philadelphia, where real estate activity has long lagged behind the national average, homes a quarter of a century old have been marked down as much as 25 per cent. Cleveland real estate men have also noticed a softening of prices on second-hand homes. In Atlanta houses in the $10,000-$15,000 class have lost one-tenth of their value, while older houses priced above $15,000 are down almost 20 per cent."

Other real estate spokesmen believe that the public now feels that a period of readjustment is on the way, and that home-buying had better be deferred until a more stable economic situation is attained. Appearance of new houses in gradually increasing quantities, even though most of them are half-completed, has probably given pause to the over-anxious home seeker who six months ago would have snapped up a ten year old house. Lastly, the stock market debacle is believed to have taken the edge off speculative eagerness in real estate.

Although the leveling-off of the real estate market has been general enough and important enough to be termed a trend, current activity has also been clearly marked by an important selectivity, both in kinds of real estate variously affected, and in the areas involved. Almost unperturbed, for example, by the slump in many residential properties (except as it points the way they must eventually follow) have been the markets in commercial and industrial properties.

(Continued page 6, column 1)

Financing Only Housing Cost To Come Down

By GEORGE H. DOVENMUEHLE

I HAVE attended many conferences on housing costs where the speakers were builders or real estate men. They usually came to the profound conclusion that costs were high, and probably would remain high except for a technical miracle which would some day come to pass. Invariably they conclude that to improve the situation, it is necessary to cut the interest rate on mortgages and lengthen the maturity.

The interest rate is the *only* cost item that has been reduced and very substantially reduced. This did not result from our great love of the human race—no, the good old law of supply and demand has been working and there has been a plentiful supply of money. The G. I. terms are now 4 per cent for a 25 year maturity.

G. H. Dovenmuehle

What does this rate mean to the institutional investor? After deducting the initial cost of making the loan which the investor pays, and the cost of servicing that loan at the local level, the investor will receive a maximum of 3.4 per cent and from that low figure will have to deduct the home office overhead. I believe no further reductions of interest in the home loan field will be made. The maturity is now 25 years and, in my opinion, this is the very maximum that should be permitted for any home loan.

We assume that it will take a man an entire generation to pay for his house. If any attempt is made to lengthen the maturity still further, the borrower will cease to be a home owner and become instead a very poor tenant because the depreciation of the home will take place far more rapidly than the amortization of the loan. The borrower will owe more than the house is worth during most of the loan period.

Every survey indicates that most veterans want to rent an apartment rather than buy a house, and most surveys indicate that they want or expect to pay $40 or $50 a month. Now we are making loans for the construction of a number of apartment buildings. These are usually three story walk ups, 4 to 5 rooms, quite well constructed although not luxurious and are in good neighborhoods. They are costing today about 63¢ per cubic foot or $8 per square foot or $1650.00 per room without the cost of land. We find that the builder must average a little over $20 per month per room in order to encourage him to build, and this rent must be higher per room if he builds smaller units. The builders in my area are therefore building for tenants who will have to pay in the neighborhood of $90 per month for each family unit.

ACTIVITIES IN MBA AND OTHER GROUPS

More Reliance on Local Efforts to Solve Housing Problem Urged in Western Tour

G. I. loan appraisals are too loose and concrete steps now being taken by the VA offer encouragement to mortgage lenders that the program will be placed on a sounder long-term basis than before.

Public housing is not the answer to this nation's long-range program of more and better shelter. What we need in the United States is more community planning, more initiative for removing slum and blighted areas on the local level and less dependence on the central government in Washington.

These were two of the significant observations affecting the housing and mortgage industries today which President GUY T. O. HOLLYDAY laid particular stress on in his recent nationwide tour which included appearances before six local mortgage bankers associations.

President Hollyday's tour began with an address before the Mortgage Bankers Association of New Jersey. Following this, he headed for the West Coast where he appeared as guest speaker before the Mortgage Bankers Association of Southern California in Los Angeles, the Northern California Mortgage Bankers Association in San Francisco, the Portland Mortgage Bankers Association and the Seattle Mortgage Bankers Association. Heading back East, he spoke before members of the St. Paul and Minneapolis Mortgage Bankers Associations in a joint meeting in St. Paul. He was accompanied by Samuel E. Neel, MBA Washington Counsel, who also spoke at the same meetings on Washington developments affecting the mortgage field.

In Newark, President Hollyday told the New Jersey members that one of the greatest national dangers today—and one which has a special meaning for those seeking a solution to the housing problem—is that the country has become too accustomed to substituting federal paternalism for community-self-reliance.

"The natural result of this attitude is the assumption of power by government bureaus," he said.

"If we are to play our part in the protection of the cities in which we live, we must be prepared to take our place on the wall to defend against the enemies of the city."

Turning to veterans home loans, Hollyday urged restraint and caution in handling them declaring that only in this way can the best interests of veterans be served. He said mortgage bankers should point out to veterans that they are lenders of other people's money and, as such, are in a semi-public capacity.

In Portland, emphasizing his contention that we must look to our local community effort for the real solution to slum clearance, Hollyday said:

"Let's take an interest in our own communities. Let's work through our local organizations and interested groups in solving those community problems which create the clamor for public housing."

He also stressed the important trust which had been placed in the hands of the mortgage lenders of the country by the G. I. Bill. He urged the need for the mortgage bankers and others making loans under the bill giving the veterans the right kind of advice.

In Seattle, President Hollyday reiterated his endorsement of the "Indianapolis Plan" in eliminating blighted areas.

AT THE SEATTLE MEETING: l. to r.: Kenneth Morford, MBA regional vice pres.; Duane Miner, pres. of the Seattle Association; Samuel E. Neel, MBA Washington counsel; and Pres. Hollyday.

L. to r.: Seattle's acting mayor, M. B. Mitchell; Pres. Hollyday and Duane Miner. Past Pres. W. Walter Williams, who acted as host, was unable to be present at the luncheon.

ACTIVITIES IN MBA AND OTHER GROUPS

"Indianapolis has a plan that I'd like to see considered by other cities," he said. "There the city has set aside $500,000 a year for the past two years to correct blighted areas instead of going to the federal government for help."

The proper handling of the huge veteran loan business is one of the paramount problems now facing all money lenders, Hollyday said.

"We've tried to take our cue from General Omar Bradley who has said that veterans should be told that they have ten years in which to avail themselves of the G. I. Bill. This is a market in which many want to buy and few want to sell, with the result that hasty buyers will likely take losses on resales."

"The freeing of builders to allow them to get materials is, in my opinion, very shortly going to affect the abnormal premiums now on existing houses," he added.

In St. Paul, he again urged more actual work in our home communities regarding the difficult housing problems of the moment—and less talk and agitation.

NEW CINCINNATI PRESIDENT TO EMPHASIZE APPRAISING

Seeking sounder loan appraisals will keynote the administration of Henry P. Bunker, real estate officer of the Central Trust Co., who has been elected president of the Mortgage Bankers Association of Cincinnati. The newly-elected official asserted that the real worth of land and buildings should be emphasized because of the exaggerated prices paid for property.

Others elected by the mortgage bankers are: John J. Ryan, vice president; John Sloan, secretary; H. William Brockman, treasurer; Paul J. Vollmar, William Byars and Lewis A. White, governors.

IOWA GROUP MEETING SOON

The annual convention of the Iowa Mortgage Bankers Association will be held in Des Moines, February 4 and 5. The program will be announced in a few days.

SAYS LENDERS ASSUMING GREATER RISK THAN EVER

"People are taking their money out of real estate," DONALD S. THOMPSON, vice president of the Federal Reserve Bank of Cleveland, told members of the Cleveland Mortgage Bankers Association in a recent address.

"People are going into real estate, but their money isn't," he said, citing as proof the enormous increase in mortgage loan totals in various types of lending institutions.

"In a building boom the money they take out of real estate by borrowing on it goes into productive channels. But when you have a boom, increased borrowing reflects the run-up in prices and the money isn't going into the welfare of the country.

"Actually, lenders are assuming a greater and greater risk in the real estate inventory of the nation."

He said that prices of old homes were now 25 to 40 per cent higher than the amount of money it would take to replace them new.

"If the enormous backlog of unfinished homes could, by some miracle, be completed quickly—I wonder what would happen to the real estate market."

S. R. KINSELLA NEW HEAD OF ST. LOUIS ASSOCIATION

S. R. Kinsella, secretary, Giraldin Brothers Real Estate Company, was elected president of the St. Louis Mortgage Bankers Association to succeed Wm. H. Jaffke, and Fallon A. O'Leary, of Cornet and Zeibig, Inc., was named vice president. Fred A. Frey, of Westerhold-Frey Real Estate Company, was elected treasurer and George F. Altman, Income Investment Company, was elected secretary.

Added to the Association's board of directors were: Lester Kuhs, Kuhs Realty Company; Edward T. Murray, Mutual Bank and Trust Company; and William Breummer, Carl G. Stifel Realty Company. Mr. Jaffke was added to the advisory council.

L. R. CHISHOLM NAMED NEW CHAIRMAN IN KANSAS CITY

L. R. Chisholm of Herbert V. Jones and Company has been elected chairman of the Kansas City Mortgage group. Other officers elected were Harold W. Brown of Shryock Realty Company, vice chairman, and J. N. Frost of J. C. Nichols Investment Company, secretary.

Named to the executive committee were Julian Wornall of City Bond and Mortgage Company; George R. Peterson of First Mortgage Investment Company; Le Roy Williams of Kansas City Life Insurance Company, and William P. Sayre.

Retiring President Malcolm Bliss of L. J. Baer and Company, presided at the meeting.

DES MOINES GROUP NAMES M. S. OLSON AS PRESIDENT

Election of M. S. Olson as president of the Des Moines Mortgage Bankers Association has been announced. Olson, vice-president and treasurer of the General Mortgage Corp. of Iowa, is retiring vice-president of the association, and was secretary-treasurer two years ago.

Ray G. Miller was named vice-president, and Orville Gore, secretary-treasurer. New members of the board of governors are A. E. Cass, three-year term; William E. Hey and John McGill, one-year terms. Re-elected were L. M. Fryer and W. H. Williams.

DUANE MINER IS HEAD OF SEATTLE GROUP

DUANE MINER, mortgage promotion manager of Allied Building Credits, has been elected president of the Seattle Mortgage Bankers Association and J. E. ANDERSON, executive vice president, First Mortgage Company, has been elected vice president. ROBERT E. NELSON, Washington Mutual Savings Bank, was named secretary and treasurer and FRANK NOLAN, National Bank of Commerce, JAMES RICE, Northern Life Insurance Co., and CLIFFORD OLSON, Pacific First Federal Savings and Loan Association, were named trustees.

ACTIVITIES IN MBA AND OTHER GROUPS

Made That Hotel Reservation for Chicago Clinic? If Not, Get Off Without Delay

Have you sent that reservation blank to the Drake Hotel, Chicago, for your hotel accommodations at MBA's first 1947 Mortgage Clinic? A substantial number of the rooms have already been spoken for so that means you should act immediately to get your space. It's February 28-March 1 and we think it will be one of the most profitable meetings the Association has ever sponsored.

We published the program in January. Since then, there have been some changes. Here's the program as revised:

First morning, general theme: "Real Estate Today and the Outlook Tomorrow." Speakers are:

"The Need in the Urban Market" by James Downs, Downs Mohl Company, Chicago.

"Commercial and Office Buildings" by Leo Sheridan, L. J. Sheridan & Co., Chicago.

"Neighborhood Development" by Philip Klutznick, president, American Community Builders, Inc., Chicago.

First afternoon, general theme: "Government Guaranteed Lending." Speakers are:

"Lending Policies — Appraisals and Credits" by Thomas J. Sweeney, assistant director, loan guarantee service, Veterans Administration, Washington, D. C.

"The Present Status of the Veterans Program" by Samuel E. Neel, MBA Washington counsel.

"FHA Policy Respecting Rental Housing Under Section 608 of Title 6" by Curt C. Mack, assistant commissioner, Underwriting, FHA, Washington, D.C.

Second morning, general theme: "Building Construction and Costs." Speakers are:

"Availability, Price and Outlook for Building Materials" by Tyler Rogers, president, The Producers' Council, Washington, D. C.

"The Outlook for Interest Rates" by Harland Allen, investment counsellor, Chicago.

"Cost Outlook for Homes and Apartments and Labor Conditions," by Irving Blietz, Chicago.

"Some Current Technical Developments" by Carl Boester, director, Housing Research Foundation, Purdue University.

Second afternoon, general theme: "How to Increase Your Mortgage Business." Speakers are:

"Industrial Financing and Purchase of Real Estate" by William L. Leighly, vice president, Dovenmuehle, Inc., Chicago.

"Interim Financing Through Banks and Insurance Companies" by Edgar N. Greenebaum, president, Greenebaum Sons Investment Co., Chicago.

"The Correspondent—His Place in the Investment Field" by Norman H. Nelson, vice president, The Minnesota Mutual Life Insurance Company, St. Paul.

"Promotion Methods in Obtaining New Business" by Theodore A. Buenger, president, Dovenmuehle, Inc., Chicago.

NEW ILLINOIS HEAD NAMED

Jack Wright Noel, Champaign, Ill., real estate agent was elected president of the Illinois Mortgage Bankers Association at a recent meeting in Decatur, succeeding Leroy Moyer of Decatur.

SHUTZ NAMED DIRECTOR

Byron T. Shutz, Kansas City, past president of MBA, was elected a director of the First National Bank of Kansas City at the institution's annual meeting. The First National is the oldest bank in Kansas City with resources of over $228,000,000 and the directorate is composed of 18 men. Mr. Shutz was also recently elected a member of the board of Kansas University Endowment Association.

People and Events

WALTER GEHRKE of Detroit has been named to the Federal Savings and Loan Advisory Council, an organization which advises the Home Loan Bank Administration . . . SAMUEL E. NEEL, Washington counsel, has been named to the Association's publicity committee and W. ROSS JOHNSTON of Oklahoma City to the Washington Committee. ERNEST GOHRBAND of Portland, Ore. has been appointed to the Research committee to fill the vacancy created by the death of L. E. MAHAN. W. A. CLARKE, Philadelphia is the new head of the Washington Committee succeeding Mr. Mahan.

LOUIS WIRTH, professor of sociology at the University of Chicago, will be the principal speaker at the Chicago Mortgage Bankers Association annual dinner meeting January 21. He will talk of "Why Invest in Chicago."

As a result of the death of Past President L. E. Mahan, there has been a change in the organization of his firm, L. E. Mahan & Company, St. Louis, according to an announcement. Henry T. Ferriss, attorney, representing the estate of Mr. Mahan, has been elected president and the Company will continue to act as correspondent of the life insurance companies which it has previously represented. Fred J. Freiner is vice president, Fred E. Henry, secretary, Wm. R. Humphrey, vice president and Albert C. Johns, treasurer.

Mr. Freiner, who has been with the Company the last 10 years, and William R. Humphrey, with the concern for two years, were elected vice presidents to function at the head of the active management of the organization. Mr. Henry and Mr. Johns have been with the organization since its founding in 1931.

Charles A. Braman has been elected 1947 president of the Cleveland Real Estate Board. He is mortgage loan correspondent for the Penn Mutual Life Insurance Co., is a former trustee of the board and a past president of the Cleveland Apartment House Owners Association and the Cleveland Mortgage Bankers Association.

ACTIVITIES IN MBA AND OTHER GROUPS

BLOOM OFF ROSE?

(Continued from page 1)

Today's market selectivity is reflected not only in types of real estate but, to a lesser degree, in areas as well. For many local reasons some cities throughout the country appear to be stronger than the trend, with several still reporting rising levels of activity. In Houston, Tex., the index of transfers rose 12 per cent from May to September, and in Pittsburgh, Flint, San Antonio and South Bend activity was still at high spring levels, according to the latest available estimates.

The New York City market has also been noticeably strong, a fact which is of particular significance because, in the opinion of ROBERT W. DOWLING, president of the City Investing Co., who addressed a previous MBA clinic, Manhattan is generally ahead of the rest of the country in recognizing scarcity values; other cities lag a year and a half behind this bellwether market. The recovery in commercial real estate values has started later in other cities, and hence may be expected to follow a rising trend even longer than that of New York, which Mr. Dowling estimates to be at least another two years of rising prices.

In the matter of residential property, most authorities believe that construction costs, although at their highest level in the history of the market, are still on the way up. This fact, plus prevailing uncertainties about construction time (now up to ten months, instead of the normal three to four), about on-site wages, about adequacy of the labor supply, and about non-housing limitations may make for rising prices for new houses and provide a prop for present inflated prices of old residences. Nowhere, however, can an expert be found to claim that old residential property will experience much price appreciation, and many flatly declare that a decline in such values is imminent.

More unanimous than the opinion on residential properties is that on commercial, and to a lesser extent on industrial, real estate. A New York savings bank president believes that the needs of business and legitimate investor interest guarantee a rising market for this type of property as long as business activity stays at present high levels. The scarcity factor that played such a large part in driving up the prices of residential real estate is still operating with full force in the present commercial and industrial markets.

"Residential building will be caught up by the fall of 1947. After that, construction will shift to apartment buildings which will equal demand by the fall of 1948," is one expert's view.

W. E. MILLER ELECTED NEW HEAD OF CLEVELAND ASS'N

W. E. MILLER, A. D. Fraser, Inc., has been elected president of the Mortgage Bankers Association of Cleveland. Other officers are: H. C. BACON, vice-president, Allied Mortgage, Inc., vice-president; HARVEY GOSS, assistant vice-president, Central National Bank, secretary, and JAY WILSON, Massachusetts Mutual Life Insurance Co., treasurer.

EDWARD MCKINLEY, manager, Prudential Insurance Co. of America, and EDWARD MEYERS, vice-president, Union Bank of Commerce, are new board members.

HAROLD P. YEGGE SLATED TO HEAD CHICAGO GROUP

HAROLD F. YEGGE, vice president of Henry P. Kransz Co., has been proposed by the nominating committee as the next president of the Chicago Mortgage Bankers Association.

HARRY H. SALK, assistant vice president, American National Bank & Trust Co., has been named for vice president and LINDELL PETERSON, president of Chicago Mortgage Investment Co. for secretary-treasurer.

Members of the board of directors, term ending in 1948; EDGAR A. HOWARD, General Mortgage Investments, Inc.; M. O. MCKEVITT, First National Bank of Chicago; NEWTON S. NOBLE, JR., Lake Michigan Mortgage Co.; WILBUR F. PILGRIM, F. C. Pilgrim & Co.; THOMAS J. PURCELL, Hogan & Farwell, Inc.; G. IRVING THUNANDER, Charles Ringer Co.; and EDWARD V. WALSH, First Federal Savings & Loan Ass'n.

ROBERT KEE ELECTED NEW DETROIT MBA PRESIDENT

ROBERT KEE was elected president of the Detroit Mortgage Bankers Association to succeed WILLIAM A. HOWE at the organization's annual dinner meeting where PRESIDENT GUY T. O. HOLLYDAY and SAMUEL E. NEEL, Washington counsel, were guest speakers. HAYWARD DENYES was elected vice president and CHARLES BESANCON secretary and treasurer. New governors named were JAMES BARNES, LEO JANISSE and SAM TURNER.

In his address, President Hollyday said in part:

"Realtors and mortgage bankers have been united in their objection to public housing. Why not unite to correct conditions that provide support for public housing. Public housing has more of a popular appeal than most of us are willing to admit, and one of the reasons for this popularity is the fact that the public housers have done something about blighted areas. In place of spending our time and efforts fighting public housing on a national level, let us direct attention to the correction of conditions in our own backyard."

In his discussion of G. I. loans, President Hollyday related his observations in his country-wide tour.

"On a recent trip to visit mortgage groups on the West Coast, there was a very noticeable shrinkage of the market for G. I. loans. One of the factors present in this shrinkage was the requirement of a fixed percentage down payment on the part of the veteran. It seems to me that we money lenders should recommend to our secondary market that veterans loans should be on a case basis, and that the requirement of a fixed percentage down payment may cause us to either lose a desirable loan or to deprive a veteran of necessary working capital. These fixed payment requirements defeat the will of Congress. If this requirement is adopted generally I predict that veterans are going to look to Congress to get the percentage loan that the law contemplated, and that if necessary the Government will do the financing without participation by private enterprise."

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FEBRUARY, 1947

Watch your appraisals —and your pen and ink!

At first, it might sound ridiculous to some members but a timely warning now would be to watch the kind of pens and ink you're using in getting signatures and keeping records. The Iowa Mortgage Bankers Association *Bulletin* recently pointed out "that in connection with tests made with some of the new types of fountain pens recently introduced on the market that the ink used may be subject to fading and possible complete disappearance after a period of time. It looks as though we are going to have to watch the kind of pens used in signing notes and mortgages. We would hate to wake up some morning a few years from now and find that the papers in our file, upon which we have a loan, have no one's signature on them."

We looked into the matter and found that this wasn't idle talk by any means. An independent research organization had been working on the same thing and came up with the conclusion that use of the new ball point pens may be risky business in keeping records. This organization's tests seemed to indicate that you might be playing safe not to use these pens for important documents until it has been conclusively proven that the ink will hold fast.

Big life companies make heavy property purchases

It seems as though it was only a few months ago when these big purchases of real estate by the large insurance companies was only a slight trickle; today it has almost reached flood proportions. Some are hailing it as "a new investment principle." What seems so curious about the whole business to many is that a great number of these sales are made by companies which turn right around and rent the property back from the insurance companies.

The Chicago *Journal of Commerce* observes that the "insurance firms profit by getting a yield of 3.5 per cent or more on their money at a time when suitable investments are hard to find. The retail stores get large cash sums which can be used to build up inventories and take advantage of discounts usually allowed on cash payments for merchandise."

These transactions are largely the result of an amendment to the New York insurance laws allowing insurance companies and tax-exempt institutions to invest 5 per cent of their funds in real estate. According to one real estate man, leases in such instances usually provide for annual rental payment for 30 years of 5.39 per cent of the purchase price, of which 3.5 per cent is considered return on the investment and 1.89 is amortization. Options for renewal after 30 years usually call for a rental of 1.5 per cent.

An option to repurchase the property is not included because the government would not allow the lessee to write off the 1.89 per cent amortization to operating expenses in the event of repurchase.

This trend may continue to accelerate. Not only do the store owners sell at the current high real estate prices, but they get funds with which to purchase merchandise for cash and thus enjoy a discount of 5 per cent. Since they often turn merchandise over five or six times a year, the yield on the original money can run as high as 25 or 30 per cent.

Life companies and tax-exempt institutions are restricted in the use of their funds and apparently believe real estate to be a stable investment while affording a good return. During the recent weakness of the bond market, realty bonds held up unusually well, it was pointed out.

"To provide for fluctuation in times of recession, industrial property rental usually runs somewhat higher than that on commercial property and is averaging about 5.8 to 6 per cent in current transactions," the *Journal of Commerce* observes.

1946 showed further interest rate decline

ELLIOTT V. BELL, New York's superintendent of banks, in an address before the New York State League of Savings and Loan Associations, presented some interesting figures which seem to us to have significance for mortgage lenders generally, first because they give some exact statistics on lending in an important state and, second, because they are figures of the kind that you can't often put your finger on.

"This year (1946) in mortgage lending has been distinguished also by the further decline in the average rate of interest borne by the new loans made. The average rate of interest charged on all types of loans during this period was 4.35 per cent, compared with 4.98 per cent in the same period last year. The 1946 rate is a full 1 per cent under the average rate at which the associations made loans four years ago.

"The decline in the average rate on new loans this year can be laid primarily to two factors. First, the large admixture of GI mortgage loans, bearing a 4 per cent rate, not only pulled

(Continued on next page)

Federal Income Tax Laws Make Real Estate Attractive for Investment

THE federal tax on individual or corporate income has become, during recent years, one of the most important single sources of revenue available to our government for meeting ordinary and extraordinary governmental expenses.

The tax requirements on income are at an all-time high today, with prospect of continuing so for many years to come, due to the necessity of servicing our large funded war debt in addition to the ordinary costs of government which are currently at near peak levels.

Because of these high tax requirements, the hand of the federal income tax collector will continue to fall heavily on income from whatever source or class of investment derived. The regulations of the federal income tax commissioner, pertaining to the collection of these taxes, make real estate an attractive investment, at least when compared with other forms of investment available to the investor at the present time. As every kind of income is taxed, the tax itself does not affect the value of any investment. It is only by comparison of the regulations regarding real estate with those governing other investments that certain advantages may be measured. This may be illustrated by the following example.

All investments are made on the basis of certain factors, such as safety of principal, enhancement of principal, *net* return, ability to control the investment, etc. Let's look at *true net return*, that is, *spending money*. A purchaser of real estate buys it for a price. Whether he realizes it or not, he makes a mental appraisal in arriving at the price he is willing to pay. That appraisal is largely based on net income. For example, let's take a property producing $7,000 net income, before depreciation. The income looks stable to the purchaser for many years to come. The purchaser figures that he would be justified in paying $100,000 for this property. Does he get 7 per cent return? Is he investing $100,000? No. He finds a lender who appraises the property at $90,000 and is anxious to lend him $60,000 at 4 per cent. Therefore, his investment is but $40,000. The land is worth $15,000, the building at least $85,000 in depreciated replacement cost. Here is how he arrives at his spending money:

This article is the latest in the series published for its members by the Chicago Mortgage Bankers Association on various topics related to the mortgage business.

Net income	$7,000.00
Interest on mortgage . . .	2,400.00
Net before income tax and depreciation	$4,600.00

Let's assume the buyer has taxable income, before this building income, of $26,000. His income tax on this is $10,203. The tax on anything over is 58.9 per cent. If this investment were not real estate, the tax on $4,600 would be $2,709.40, leaving him a spending net after tax of $1,890.60. Because it is real estate, he is allowed a deduction of depreciation depending on the age of the building. Let us assume that the normal life of the building is 40 years and that the remaining normal life is 25 years. The allowable deduction would be 4 per cent of $80,000 or $3,200. This would leave a taxable income of $1,400. The additional tax would be $824.60 leaving a spendable net of $3,775.40 after tax. This would give the investor in this real estate $1,885.40 more in spendable income, or over twice as much as he would have received on the non-real estate investment cited above.

(Concluded from page 7)

the average rate down on its own account but also tended to force the rate down on conventional loans as well. Second, the competition for available loans was keen and lenders were inclined to quote lower rates in the hope of attracting mortgage investments to themselves. It is a striking fact that the cost of mortgage money has been declining steadily in a period whose distinguishing economic characteristic has been a general rise in prices."

In addition to the map of your state's congressional districts enclosed with this issue, you will also find another copy of the hotel reservation blank for our first 1947 Mortgage Clinic in Chicago February 28-March 1. If you used the previous blank sent you to make your reservation, ignore this one. If NOT, then fill out and get it off today. See page 5 of this issue for the revised program—one of the best you'll be offered at any business meeting this year. We urge prompt action to secure hotel accommodations for this Clinic.

VA APPRAISER "IN MIDDLE" ANY WAY YOU LOOK AT IT

The VA appraiser is "in the middle" anyway you look at it and some changes will have to be made in this phase of the program, in the opinion of HORACE CARPENTER, JR., president of the Nye Mortgage Company of Buffalo.

If the present appraisal procedure in evaluating properties for veterans' loans is to continue and have any meaning, lenders, themselves, rather than the Veterans Administration, must police it," he said.

"The Veterans Administration appraiser is the living symbol of what is known as 'being in the middle,' and can confidently look to 10 brickbats for every kind word.

"If he displeases the Veterans Administration, he can be disciplined by disqualifications; if he displeases the lender, he finds himself off the list insofar as further business is concerned; and if he displeases the veteran, he can be, and frequently is, subjected to all kinds of pressure, direct and indirect, from the veteran, his lawyer, his relatives and his broker. . . .

"The present operation of the appraisal system on G. I. loans could be improved in several ways. More rigid scrutiny of appraisals by the Veterans Administration would soon weed out the incompetent, the careless and the venal among the appraisers. This cannot be done by desk checking but will require field checking on a spot basis.

"A more careful checking of the details of appraisal reports by the lenders would also be beneficial. It is all too common practice among lenders to look only at the opinion of value stated and disregard the means by which that opinion has been reached."

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